VSB – TECHNICAL UNIVERSITY OF OSTRAVA
FACULTY OF ECONOMICS

DEPARTMENT OF FINANCE

Finanční analýza vybrané společnosti

Financial Analysis of Selected Company

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Ostrava, 2014

VŠB - Technical University of Ostrava
Faculty of Economics
Department of Finance

Bachelor Thesis Assignment

Student:	**Danyang Pan**
Study Programme:	B6202 Economic Policy and Administration
Study Branch:	6202R010 Finance
Specialization:	01 Finance
Title:	Finanční analýza vybrané společnosti Financial Analysis of a Selected Company

Description:

1. Introduction
2. Description of the Financial Analysis Methodology
3. Financial Characteristics of the Selected Company
4. Financial Analysis of the Selected Company
5. Conclusion

Bibliography
List of Abbreviations
Decleration of Utilization of Results from the Bachelor Thesis
List of Annexes
Annexes

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Extent and terms of a thesis are specified in directions for its elaboration that are opened to the public on the web sites of the faculty.

Supervisor: **Ing. Josef Novotný, Ph.D.**

Date of issue: 22.11.2013
Date of submission: 09.05.2014

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"Herewith I declare that I elaborated the entire thesis, including all annexes, independently."

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Contents:

1 Introduction

This thesis is focus on what is the financial analysis and financial analysis how to used to evaluate a selected company. Financial analysis is based on accounting, annual report and other data, using vertical analysis, horizontal analysis and other analysis to analyze companies'various ability in financing, investment, business activities and so on. For companies' investors, creditors, operators and other organizations or individuals to make the right decision. Financial analysis can provide the past of the company, evaluation of the companies' present situation, and prediction of the companies' future.

The aim of this thesis is assessment of financial health of Parkson group, we will select 5 years as one analysis period, from 2008 to 2012. This thesis is focus on two financial analysis methodology and one company: common-size analysis, financial ratio analysis and Parkson group.

This thesis will divided into five parts, first and last chapter is introduction and conclusion, second chapter is theoretical description, third part is about Parkson group company, and fouth part is calculation and application.

In chapter 2, we will describe financial statements and the methodology of common-size analysis, financial ratio analysis and DuPont analysis. Firstly, we will introduce three financial statements: the balance sheet, the cash flow statement and the income statement. Secondly, we will introduce horizontal and vertical common-size analysis of balance sheet and income statement. Then, we will introduce four types of financial ratios: liquidity ratios, activity ratios, solvency ratios and profitability ratios. At the end of the chapter, we will introduce the DuPont analysis, it's one of the pyramidal decompositions.

In chapter 3, we will describe company profile of Parkson group. Firstly, we will research the financial statement (balance sheet and income statement) between 2008 and 2012 from the annual reports. Then, we will make horizontal and vertical common-size analysis of balance sheet and income statement to analyze the trends and changes of the company.

In chapter 4, we will use financial analysis methodology to assess Parkson group's financial health. First, we will calculate the various important ratios (liquidity ratios, activity ratios, solvency ratios and profitability ratios). Secondly, we will compare the ratio with the normal range and judge the ability in Parkson group. At the end of the chapter, we will from DuPont analysis to know what items should be increased in ROE.

2 Description of the financial analysis methodology

In this chapter, we will describe financial analysis methodology that will be used in flowing chapters. We divided this chapter into three parts. First, we will introduce the three main statement, balance sheet, cash flow statement, and income statement. The next parts, we will explain common-size analysis, it include vertical common-size analysis and horizontal common-size analysis. Third, we will introduce financial ratio analysis and DuPont analysis.

Financial analysis is a tool used by managers and investors, but first thing is to get statements materials, because financial analysis is based on the financial statements. In fact, there are some problems with financial statements of annual reports, companies always tend to portray past performance and future prospects in a very favorable light. So inventors should find the mistakes that reports trend to minimize or ignore through the analysis. In addition, financial ratios which formed from sets of financial statement are very important in analysis, because each ratio is designed to explain some aspect of how the business is doing.

2.1 Financial statements

Financial statement (or financial report) reflects a company in the past period (mainly quarterly or annual) of financial performance and the final status. Meanwhile, it can help investors and creditors to analyze and make economic decisions. The statement is composed of the balance sheet, the cash flow statement, the income statement, and the shareholder's equity statement. In this part, we will introduce three main statements: the balance sheet, the income statement and the cash flow statement.

2.1.1 Balance sheet

Balance sheet, also called the statement of financial position, it is the main accounting statements shows enterprise's financial status in the certain period. Balance sheet using the balance principle of accounting to divided assets, liabilities, ownership equity into two parts. Another way, the balance sheet equation is that total assets are

equal to liabilities plus owner's equity. What's more, assets include two parts, long-term assets and current assets. Liabilities are also consisting of two parts, long-term liabilities and current liabilities. The balance sheet is shown in Tab. 2.1.

Tab. 2.1 An example of the balance sheet.

Balance sheet	
Current assets	**Current liabilities**
Inventories and work in progress	Short-term borrowings
Accounts receivable	Accounts payable
Income tax	Income tax
Other current assets	Provisions
Cash and cash equivalents	Other current liabilities
Long-term assets	**Long-term liabilities**
Brands and other intangibles	Long-term borrowings
Goodwill	Provisions
Property, plant and equipment net	Deferred tax
Investments in associates	Other non-current liabilities
Non-current financial assets	**Equity**
Other non-current assets	Share capital
Deferred tax	Share premium account
	Treasury shares
	Minority interests
	Translation adjustment
	Group share of net profit
	Reserves
Total assets	**Total liabilities and equity**

Source: W. MEGGINSON, S. SMART and B. LUCEY (2008).

In the balance sheet, the basic equation is computed as:

$$Liabilities + Owner's\ equity = Assets \tag{2.1}$$

After entry, transfer, ledger, trial, adjustment, and other accounting procedures, it condensed into a report, based on the static enterprise situation of a specific date. The function of the report not only the enterprise internal find mistakes, prevent disadvantages, but also can let readers in the shortest possible time to understand the status of the enterprise management. And it can also provide the basic information, such as current assets compared with current liabilities, can calculate the current ratio. Or we compare quick assets to current liabilities, and it can compute the quick ratio, etc. From these, we can shows that the enterprise liquidation ability, debt paying ability and the ability of capital turnover, thus it can help report users to make economic decisions.

Long-term assets have more than one year or one operating cycle in the cash cycle. Long-term assets comprise long-term investments, fixed assets, intangible assets, deferred assets and other long-term assets. It is one of the biggest asset classes in most of the balance sheet.

Current assets refers to the enterprise can convert assets into cash in one year or within an operating cycle longer than a year, it’s an indispensable part of enterprise assets. Current assets include cash and cash equipments, short-term investments, notes receivable, accounts receivable, inventory and so on. The receivable is the enterprise for selling goods, products, and provide services in the process of normal operation, should charge from buyers.

Owners' equity is residual rights by the owner after deducting liabilities in the enterprise assets. It include the paid-in capital (or equity), capital reserve, surplus reserve and undistributed profit. In joint-stock enterprise is also called as shareholders' equity. Owners' equity is the ownership of the enterprise investor to the enterprise net assets. It is affected by changes of total assets and total liabilities.

Liabilities are existing debts caused by past transactions or events of the company, these debts need to transfer assets or provide services to pay off in the future, and lead outflows of economic benefits in the future. The funds of company production and business, except investors’ investment, the borrowing from the bank or financial institution are also an important source.

2.1.2 Income statement

Income statement also called P/L (profit/loss) statement. Income statement reflect the operating results and the distribution of the enterprise for a certain accounting period, it is the financial records of the company operating performance, shows the sales revenue, cost of sales, management fee and tax status in this period, and results of the report is the profits or losses that the company have finished. The income statement is shown in Tab. 2.2.

Tab. 2.2 An example of the income statement.

Revenue
Cost of goods sold
Gross profit
Marketing and sales expenses
General and administrative expenses
Operating profit
Other income and expenditure
Earnings before interest and taxes (EBIT)
Net finance charges
Income tax
Net profit or income after taxes
Minority interest
Income to shareholders

Source: W. MEGGINSON, S. SMART and B. LUCEY (2008).

In the income statement, the basic equation is computed as:

$$Revenue - cost = Net\ Income \tag{2.2}$$

Otherwise, the accounting information in the income statement, which can be used to evaluate the management efficiency, operating results of an enterprise, investment value and reward, to measure a firm's success in management. In particular, it has the following several aspects:

First, the income statement can be used as the operating results for the distribution. Second, the income statement can comprehensively reflect all aspects of the production and business operation activities; it can help to assess enterprise managers' job performance. Third, income statement can be used to analyze the profit ability, predict future cash flow.

Operating cost is the enterprise cost of sell goods or provide services. Financial costs usually shows as interests and taxes. One important thing to know about an income statement is that it maybe represents the cash flow statement in a period of time.

2.1.3 Cash flow statement

Cash flow statement is expressed in a fixed period (usually monthly or quarterly), an institution's changes in cash (including bank deposit). The cash flow statement mainly reflect each project's in the balance sheet that has the impact on the cash flow, and according to its purposes divided into three activities classification: management, investment and financing. In the short term, the cash flow statement can be used to analyze an company whether have enough cash to cope with spending.

Its content is consistent with the balance sheet and income statement. From the cash flow statement, it can be summarized to reflect the influence of operating activities, investing activities and financing activities on cash flow. It is better than the traditional income statement to evaluate enterprise's profit, financial status and financial management. The cash flow statement is shown in Tab. 2.3.

Tab. 2.3 An example of the cash flow statement.

Operating activities
Operating profit
Increase in depreciation and amortization
Other
Cash flow from operations before working capital changes
Interest and taxes paid
Taxes
Net cash from operations before working capital
Change in inventories
Change in accounts receivable
Change in accounts payable
Other
Net cash from operations
Investing activities
Investing activities
Operating investments
Financial investments
Financing activities
Financing activities
Borrowings
Repayments
Current investments

Source: W. MEGGINSON, S. SMART and B. LUCEY (2008).

Firstly, the cash flow from operating activities. If we compare has received cash, paying cash in selling goods, providing labor services and purchasing of goods, received service, the comparison is meaningful in the case of purchase and sale business is normal. Ratio is bigger shows sales profit is big, the ability to generate cash is strong.

Secondly, the cash flow is from investing activities. When enterprise enlarge scale or develope growth of new profit, it needs a lot of cash investment. Generated cash inflows from investment activity don't compensate outflow, cash flows in investment activities is negative, but if it is also effective in business investment, it will generate cash inflows for repayment of the debt in the future, companies don't have difficulty in debt service.

Thirdly, the cash flow is from financial activities. In general, the cash flows is bigger that generated by financing activities, the more pressure in companies of the debt, but if the net cash inflow mainly comes from equity capital, the company is not only face repayment pressure, but also enhance the financial strength. Therefore, in the analysis, it can compare cash from the equity capital and the total financing activities of cash inflows, if the ratio is bigger, shows enterprise's financial strength is increasing and financial risk is reducing.

2.2 Common-size analysis

The most important function of analysis is to convey information to managers and investors. Regardless of the company's accounts change over time due to inflation, economic growth, and other things, we can use common-size analysis to compare statements, and use the items of financial statement to identify trends and important differences.

At same time, there are two types of common-size analysis: Vertical common-size analysis and Horizontal common-size analysis.

2.2.1 Vertical common-size analysis

The purpose of this analysis, which primarily compares proportions in one year, is to provide insight into the reality of a company's situation. Then it can compare proportions with itself and competitors, naturally we can know our companies whether have differences in market. And vertical analysis is more focuses on the internal structure of each project in the statements.

In a vertical analysis of balance sheet, the total of assets and the total of liabilities and stockholders' equity are generally used as base figures. The current assets and long-term assets are shown as percentages of all assets, and the current liabilities, long-term liabilities and equities are shown as percentages of the total liabilities and stockholders' equity.

So in a vertical analysis the working principle would be computed as:

$$E\% = \frac{X_i}{\sum_n X_i} \cdot 100 \quad , \tag{2.3}$$

where E% is the proportion of the project, Xi is the item, $\sum_n X_i$ is sum of item. Then, judge the position and importance of each item in statements by the ratio, such as total revenues, total assets or total abilities.

2.2.2 Horizontal common-size analysis

Ratios by themselves have many values, but not almost as much as they have when they're compared with other similar information. Another form of common-size analysis is horizontal common-size analysis. The definition is analysis that compare each item in the accounts during certain period for the company. It can help us to realize the development of this company. The relevant points of the Horizontal common-size analysis would be computed as:

$$Absolute\ change = U_t — U_{t-1}\,, \tag{2.4}$$

$$Percentage\quad change = \frac{U_t - U_{t-1}}{U_{t-1}} \cdot 100\%\,, \tag{2.5}$$

where U_t is amount of analysis period, U_{t-1} is amount of previous period, the previous period can be last year.

2.3 Financial ratio analysis

In financial analysis, ratio analysis is the most popular, and the original date of financial ratio analysis from financial statement, so we have some limitations. For example, ratio analysis belongs to static analysis, to predict the future is not absolutely reasonable and reliable. But financial ratio analysis can compare a lot of important data, so the analysis of the different person has different functions.

In this chapter we will introduce four types financial ratios: liquidity ratios (Reflect the company's ability to use current assets to repay debts), activity ratios (Reflect the company's efficiency of using funds), solvency ratios (Reflect the company's ability to repay debts) and profitability ratios (Reflect the company's ability to get profit).

2.3.1 Liquidity ratios

For a business, liquidity refers to its ability to pay its bills in the short run. So lenders and suppliers who provide products and services to the firm on credit are particular concern liquidity ratios. They want to be sure the company has the ability to pay its debts. And it shows a company's ability to repay short-term creditors out of its total cash. The liquidity measure provided by the current ratio, quick ratio and cash ratio, and they can shows the conversion of inventory to cash is whether in a reasonable time.

The **current ratio** is the main measure of a company's liquidity, its ability to meet its financial obligations in the near future. The current ratio can be defined as:

$$Current\ \ ratio = \frac{current\ assets}{current\ liabilities}. \tag{2.6}$$

For example, if everything coming in the near future is a current asset today and everything to be paid out in the near future is a current liability today, then current assets should be substantially above current liabilities to ensure solvency. When the current ratio is below 1.5, maybe the company has some problems in its short-term

obligations. In contrast, if the current ratio is too high, the company maybe can't efficiently use its current assets.

The **Quick Ratio**[1] is conceptually similar to the current ratio. It is used to measure the ability that current assets can be converted into cash immediately to repay current liabilities. The calculation is:

$$Quick\ ratio = \frac{cash + short\text{-}term\ marketable\ investment + receivables}{current\ liabilitie\ s}. \quad (2.7)$$

Quick assets include the monetary funds, short-term investments, notes receivable, accounts receivable and other receivables. And quick assets contain those current assets that maybe can be quickly changed to cash at close to their book values. They can be converted to cash in a short time. In general, the higher the ratio, the greater the company's liquidity. But the quick ratio is lower than 1, the company cannot immediately pay back its current liabilities.

The **Cash Ratio** measure the ratio of total assets including company cash and cash equivalent to current liabilities, it can evaluate the liquidity of the company's assets. The ratio does not include inventory and receivables, so it only measured the most liquid item of all the assets relative to the current liabilities.

$$Cash\ ratio = \frac{cash + short\ term\ marketable\ investment}{current\ liabilitie\ s}. \quad (2.8)$$

In this ratio, it reflect the company's ability to pay the debt in the case of not rely on inventory sales and receivables, and cash ratio does not consider the time of cash receipt and payment. In generally, cash ratio is more than 20% as well. But this ratio is too high, means that the current assets maybe don't get reasonable using, and cash assets has low profitability.

[1] Acid-test ratio

2.3.2 Activity ratios

We often want to evaluate how efficiently a company does in putting its investments to use. The activity ratio is one of several accounting ratios that measure how quickly a company can convert its asset to cash, or revenue. Meanwhile, companies' managers use activity ratios as guides to assess how efficiently the company manages assets such as inventory, receivables and fixed assets, as well as the current liabilities, accounts payable.

We know activity ratios main including inventory turnover, receivable turnover and total asset turnover, etc. So turnover ratios which we can use to measure the company's efficiency, like most other financial ratios. A turnover ratio compares a measure of output to the investment used to generate that output.

Inventory turnover (*IT*) provides a measure of how quickly a firm sells its goods. And to be specific, it is a measure of the number of times inventory is sold or used in a time period such as a year. Inventory turnover is also known as inventory turns, stock turns, turns, and stock turnover. It can be computed as:

$$IT = \frac{cost\ of\ goods\ sold}{average\ inventory} \ . \tag{2.9}$$

And cost of goods sold refers to manufacturing these products directly into the raw materials, labor and allocation of manufacturing costs.

$$IT = \frac{cost\ of\ material - change\ in\ inventories}{inventory} \ . \tag{2.10}$$

The ratio is used to reflect the inventory turnover rate, that is, the proportion of inventory liquidity and inventory funds are whether reasonable. And this ratio can improve continuity of production and operation, the efficiency of the use of funds, and the enhancement enterprise's short-term debt paying ability. In general, we hope inventory turnover ratio can be bigger, because the faster inventory turnover, the stronger the liquidity.

Days sales of inventory *(DSI)* are usually to use, this ratio measuring the average numbers of days that starting in inventory until consumption, end of sales. The less turnover days, the faster the speed of inventory repayment, the higher the efficiency of inventory management. It can be computed as:

$$DSI = \frac{inventories}{cost\ of\ goods\ sold/365}. \tag{2.11}$$

This ratio is a supplementary index for inventory turnover, the shorter the ratio, the better efficiency of using funds.

Receivable turnover (*RT*) is the ratio about total revenue and average accounts receivable. It plays an important role in current assets of company, and it is the average times of a company that accounts receivable can become cash during a period. *RT* can be computed as:

$$RT = \frac{total\ revenue}{average\ receivables}. \tag{2.12}$$

Maybe we think the receivables turnover is bigger, the company is better. However, accounts receivable is the result of the credit sale, if the credit sale maybe better than cash sales, turnover days won't be as little as possible.

Days of sales outstanding *(DSO)* is the time from enterprise getting accounts receivable right and withdraw money to convert into cash. It is a calculation used by a company to estimate their average collection period. *DSO* can be computed as:

$$DSO\ ratio = \frac{accounts\ receivable}{total\ revenues/365}. \tag{2.13}$$

The ratio is a assistant index for receivable turnover ratio, it measure how long does it take to recover the accounts receivable, the shorter the turnover days, the better efficiency of using funds.

Because credit sales exist in most industry, it formed a large number of accounts receivable, if turnover days longer, collection speed become slow, companies will have

to supplement working capital through lending, in the same industry, the company has the shorter the ratio, usually has stronger competitiveness.

Payable turnover (*PT*) is used to measure a company how to manage to repay the arrears. The ratio can be computed as:

$$PT = \frac{cost\ of\ goods\ sold}{average\ payables}. \tag{2.14}$$

The ratio below the industry average, explain the company can occupy more suppliers of payment for goods than the normal industry range, so the company has the important position in this industry, but also to undertake more repayment pressure.

Number of days of payables (*NODOP*) is also very important. The former ratio is about receivable and revenue, and then the latter ratio is calculate a result of how long from payable to paying. The ratio can be computed as:

$$NODOP = \frac{accounts\ payable}{average\ day's\ purchases}$$

$$= \frac{accounts\ payble}{purchases/365}. \tag{2.15}$$

And purchases include cost of goods sold and the difference between ending inventory and beginning inventory. If the number of days small, it means more quick from inventory turn into cash, in other hand if the number is large, it indicate it is lack of liquidity of inventories.

In addition to these main turnovers, we can also use another turnover measure that may be useful in assessing a company's efficiency, like **working capital turnover (*WCT*)**. Working capital is the difference between current assets and current liabilities. The *WCT* can be computed as:

$$Working\ Capital = current\ assets - current\ liabilities, \tag{2.16}$$

$$WCT = \frac{total\ revenues}{average\,working\ capital}. \tag{2.17}$$

From this formula, we can see, if the working capital turnover ratio is too low, it shows that working capital utilization rate is too low, maybe it is lack of sales, and has the potential. If working capital turnover rate is too high, it shows that assets are insufficient, and it maybe has debt risk.

But it is not good to simply use this ratio to evaluate the efficiency of funds, and it is inappropriate to judge whether a company is lack of working capital or sales.

Fixed assets turnover *(FAT)* measures the ratio of enterprise sales revenue and net value of fixed assets. It is reflect turnover situation of enterprise fixed assets, thus an indicator to measure efficiency of fixed assets. The formula is as follow:

$$FAT = \frac{sales\ revenue}{net\ \ fixed\ \ assets}. \tag{2.18}$$

The higher the ratio, show that higher efficiency of using fixed assets, the effect of using fixed assets is good.

Total asset turnover (*TAT*) is the ratio of revenues to total assets. This ratio indicates the extent to which the investment in total assets results in revenues and it is a comprehensive evaluation of companies' total assets in management quality and efficiency. The formula of the TAT is as follow:

$$TAT = \frac{total\ revenues}{average\,total\ \ assets}. \tag{2.19}$$

The resultant number is a multiplier of the revenues that are generated for the investment in total assets. You can see, if the turnover ratio is bigger, it shows the stronger sales ability.

2.3.3 Solvency ratios

Solvency ratios can judge the safety of the enterprise liabilities and the ratio of short-term debt repayment ability. To a great extent, the level of the debt paying ability reflects the risk of enterprise operation. Such ratios mainly are debt-to-assets ratio, etc.

Debt-to-assets ratio (*DTAR*) is a measure the proportion of assets that is financed with debt (both short-term and long-term debt)[2]. It shows the larger the percentage, the greater the leverage, therefore, the greater the risk. The formula shows as:

$$DTAR = \frac{total\ debt}{total\ assets}. \tag{2.20}$$

It said how much the company are total assets financing from the debt, and the index is that comprehensively evaluate company debt levels. At the same time, it measures the company's ability to conduct business operations by using the creditor's funds, also reflect the extent of loan security. If the ratio reached 100% or more than 100%, the companies have no net assets or the companies are insolvent.

Debt-to-equity ratio *(DTER)* shows the percentage is about relationship in equity and debt. If you compare the debt-to-equity ratio of different companies within the same industry, may be more meaningful. Its formula is

$$DTER = \frac{total\ debt}{total\ shareholders'\ equity}. \tag{2.21}$$

Creditors and investors are so closely focus on debt-to-equity ratio, because it shows the extent to which company managers would like to leverage, rather than using self-owned capital. Lenders such as banks are particularly sensitive to this ratio because excessive this ratio will make them face some risk that the loan will not be repaid. To this risk, banks usually tend to restrict contract, for example, forcing the company with excess cash flow to pay its debts, must using the cash, and asking investors to invest

[2] See [1]

more capital. The lower the ratio, the better enterprise financial situation for a long time, creditor's rights has been guaranteed. In general, the ratio should be less than 1.

Financial leverage shows that the extent of the enterprise to use the fixed cost financing. CLAYMAN, M., M. FRIDSON and G. TROUGHTON (2010) states that *"The greater the use of debt relative to equity in financing the company, the greater the financial leverage ratio will be."* The formula shows as:

$$Financial\ leverage = \frac{total\ aseets}{total\ shareholders'\ equity}. \qquad (2.22)$$

Leverage ratio can measure the ability that company to expand the scale of the business, and reveal the degree of shareholder's rights to use. The higher the ratio, the greater the ability of companies to expand business, stockholders' equity can be fully used, the more opportunities to get more profit, and bring more benefits for shareholders, but leverage maybe to take bigger risks.

Interest coverage ratio is a basic risk warning ratio, especially in the lower company performance, even more crucial free cash flow of the period, it can say whether the company has ability to pay interest to avoid the risk of insolvency, and whether there is any financing ability to resolve the problems. It could be computed as:

$$Interest\ \ coverage\ \ ratio = \frac{EBIT}{interest\ \ payments}, \qquad (2.23)$$

where *EBIT* is earnings before interest and taxes. In general, this ratio is lower than 1, the company is already very important, and shows company profits is hardly enough to pay the bank interest. In fact, when the ratio is lower than 1.5, the investors should be vigilant.

Fixed-charge coverage ratio *(FCCR)* usually used for assessment of the ability that company deal with fixed-charge. The ratio can be defined as:

$$FCCR = \frac{EBIT + lease\ \ payments}{interest\ \ payments + lease\ \ payments}. \qquad (2.24)$$

Cash flow coverage ratio *(CFCR)* is similar to the interest and fixed-charge coverage ratios, however we replace EBIT with cash flow from operations and plus interest and taxes in the numerator, there are reflect the funds available to repay the debts. It can be computed as:

$$CFCR = \frac{CFFO + interest\ \ payments + tax\ \ payments}{interest\ \ payments}\ , \qquad (2.25)$$

where *CFFO* is cash flow from operations. The higher the ratio shows that the stronger the ability of borrower repaying the principal and interest, and the smaller the risk of bank loans.

Debt service coverage ratio (*DSCR*) shows before bank lend to companies, bank loans personnel need to use this ratio. It can be computed as:

$$DSCR = \frac{net\ operating\ income}{total\ \ debt\ service}\ . \qquad (2.26)$$

The ratio best calculate annually in the repayment period, it also can calculate according to the total figures in loan repayment period. The former in the calculation more reflect the solvency. The ratio shows can be used for the servicing of funds to repay the loan principal and interest of guarantee rate. It could be bigger than 1.0 in normal situation. When the ratio is less than 1, it indicates the funds are not enough to pay current debts, and need through the short-term loan to pay debts.

2.3.4 Profitability ratios

Whether investors and creditors or enterprise managers, they are increasingly focus and care about the profitability of the enterprise. Some measures of profitability relate a firm's earnings to its sales, assets or equity. Consequently, Profitability ratios are among the most closely watched and widely quoted financial ratios.

There are many indicators can reflect profitability ratios, and commonly used the gross profit margin, the operating profit margin, the net profit margin and pretax profit margin.

Gross profit margin (*GPM*) usually depends on the following factors: market competition, the enterprise marketing, research and development costs, brand effect, fixed costs and so on. What's more, gross profit is the foundation of the operation profit, if the company want to get profit, the first thing to obtain sufficient gross profit, in the case of other conditions unchanged, the amount of gross profit is large, gross profit margin is high, means the total profits will increase. The formula shows as:

$$GPM = \frac{gross\ profit}{total\ revenues}. \tag{2.27}$$

It reflects the *GPM is* higher; the efficiency is greater in turning raw materials into income.

The higher **operating margin** [3], explain the more operating profit from enterprises sales, and the enterprise's profit ability is stronger. The formula can be defined as:

$$Operating\ margin = \frac{EBIT}{total\ revenues}. \tag{2.28}$$

On the contrary, the lower this margin, explain the enterprise's profit ability is not good. There are some factors influencing the operating profit margin: sales quantity, the average selling price per unit product, the manufacturing cost per unit product, ability to control management cost and ability to control marketing costs.

Net profit margin[4] reflect how much net profit from the sales revenue per unit, shows income level. It can be computed as:

$$Net\ profit\ margin = \frac{EAT}{total\ revenues}, \tag{2.29}$$

where *EAT* is earnings after taxes. It is proportional to the net profit, is inversely proportional to the sales revenue. At the same time, enterprises increase sales income,

[3] Operating Income Margin, Operating profit margin or Return on sales.

[4] Net margin or profit margin.

must get more net profit, so to make the net profit margin remains unchanged or improved. Through the analysis of the fluctuation of net profit margin changes, can make the enterprise to expand sales, pay attention to improve management and the level of profit.

Pretax profit margin can reflect enterprise's capital structure and financing structure's impact on companies' profitability. The difference between the pretax profit margin and operating profit margin is only increased the impact of interest, therefore, the comprehensive analysis of the two ratios, you can clearly see the capital structure influence to enterprise's profit ability. The formula shows as:

$$Pretax\ profit\ margin = \frac{EBT}{total\ revenues}, \tag{2.30}$$

where *EBT* is earnings before taxes. We still have some useful indicators to assess the profitability of company relative to its total assets.

Return on assets (*ROA*) is a method on earned by a company on the assets. The return on assets is the most widely used measure of bank profitability index, the index is higher, shows that the better utilization of assets in the enterprise, and explain the enterprise achieved good effect in increasing income and save money using, otherwise the opposite. However, the limitations of the return on assets are that it does not reflect Banks' funding costs, and the return on equity compensates for this indicator. It could be defined as:

$$ROA = \frac{EAT}{total\ assets}\ . \tag{2.31}$$

There is another way to calculate ROA:

$$ROA = \frac{EBIT}{total\ assets}\ . \tag{2.32}$$

It is better for financial method, because it is not affected by various taxes in different countries.

Return on total capital (*ROC*) means companies' ability to get profit from all their assets, including net assets and liabilities, and it can evaluate the overall profitability of the enterprises to use all their assets. The formula shows as:

$$ROC = \frac{EBIT \cdot (1 - tax\ rate)}{invested\ capital}. \tag{2.33}$$

In general, enterprises can according to this index compared with capital market interest rates, if the index is bigger than the market interest rates, suggests that enterprises can make full use of financial leverage, indebtedness, to get as much profit. At the same time, the higher the index shows that the level of input and output is better in the enterprise, and the enterprise assets operation is more effective.

Return on equity (*ROE*) is one of the important indicators to measure profitability of listed companies. It shows that the higher index, the higher the investment benefits. The lower return on equity, explain the profitability of owners' equity is weak. This indicator reflects ability that gets return on equity of the self-owned capital. The influence factors of return on equity: return on total assets, debt interest rates, corporate capital structure and the income tax rate, etc. It can be computed as:

$$ROE = \frac{EAT}{total\ equity}. \tag{2.34}$$

In general, the more debt will lead to higher return on equity. Meanwhile, the higher the return on equity shows enterprises own capital has stronger ability to earn profits and operating efficiency is better, it has more guarantee to enterprise investors and creditors. ROE between 15% and 20% are generally good, and ROE is best used to compare companies in the same industry.

2.4 DuPont analysis

DuPont analysis is the financial indicator based on ROA, through inner link of the financial indicators; it can comprehensively analyze enterprise's profit level. It has hierarchical structure, and it use the relationship between the financial indicators of

enterprise. DuPont analysis is used the relationship of several major financial ratios to synthetically analyze the financial position of the enterprise.

ROE is a function of a company's ROA and its use of financial leverage. We often make DuPont analysis as following steps: First, we should decompose ROE, and then make comprehensive analysis of each items how affect the companies. The formula is defined as follows:

$$ROE = \frac{net\ profit}{equity} = \left(\frac{net\ income}{revenues}\right) \cdot \left(\frac{revenues}{total\ assets}\right) \cdot \left(\frac{total\ assets}{equity}\right), \qquad (2.35)$$

where $\left(\frac{net\ income}{revenues}\right)$ is net profit margin, $\left(\frac{revenues}{total\ assets}\right)$ is assets turnover, $\left(\frac{total\ assets}{equity}\right)$ is financial leverage.

If we want to separate the effects of taxes and interest, the net profit margin can be computed as:

$$\frac{Net\ income}{Revenues} = \left(\frac{net\ income}{EBT}\right) \cdot \left(\frac{EBT}{EBIT}\right) \cdot \left(\frac{EBIT}{revenues}\right), \qquad (2.36)$$

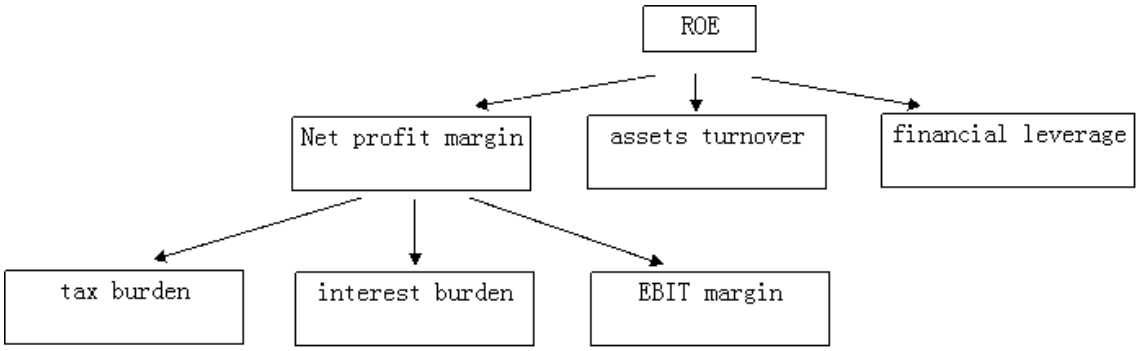
where $\left(\frac{net\ income}{EBT}\right)$ is tax burden, $\left(\frac{EBT}{EBIT}\right)$ is interest burden, $\left(\frac{EBIT}{revenues}\right)$ is EBIT margin. So after replacement, the ROE can be computed as:

$$ROE = \left(\frac{net\ income}{EBT}\right) \cdot \left(\frac{EBT}{EBIT}\right) \cdot \left(\frac{EBIT}{revenues}\right) \cdot \left(\frac{revenues}{total\ assets}\right) \cdot \left(\frac{total\ assets}{equity}\right). \qquad (2.37)$$

This decomposition expresses a company's ROE as a function of its tax, interest burden, operating profitability, efficiency, and leverage. An analyst can use this framework to determine what factors are driving a company's ROE.

We can see how to decompose ROE in Chart 2.1. And we can know the each item's influence in decomposition.

Chart 2.1 Decomposition of ROE.



3 Financial characteristics of selected company

In this chapter, we will describe financial characteristics of selected company-Parkson group. Every company has different characteristics even though they use the same financial analysis methodology. We have to choose appropriate analysis methodology based on these characteristics. This chapter is divided into two big parts: company profile and common-size analysis of Parkson group.

3.1 Company Profile

In this part, we will introduce basic information of Parkson group, it includes: history, structures and business.

Parkson is an department store operator in Asian with an great network of 132 stores, and until 30 November 2013, it spaned approximately 2.1 million sq.m. of retail space across cities in Malaysia, China, Vietnam, Indonesia, Myanmar and Sri Lanka. [5]

Parkson Retail Group Limited is one of the few nationwide department store chain operators in the People's Republic of China. Parkson group opened its first department store in Beijing, it represent Parkson group moved into Chinese retail market in 1994 and it position itself as the middle and middle-upper end. Parkson group is one of the earliest foreign department store chains to be established in China. Nowadays, it has developed into one of the largest fashion department store group and has an extensive network of department stores covering 37 major cities in China.

For China's increasingly affluent middle end consumer groups, Parkson has became a well-known foreign brand with strong brand recognition focusing on fashion and lifestyle among the middle and middle upper class consumers. Over the years, Parkson has established a long-term and stable relationships with various international and domestic brands, enables Parkson to offer a wide range of goods in its stores. And through the introduction of good quality, high value content of brand or innovative products improve the attraction of the goods, to strengthen and consolidate Parkson's leading position in China.

[5] Source:http//www.parksongroup.com.cn

3.1.1 History of Parkson group

Parkson group decided to open in China in 1994, and its first store in Beijing, in 1996, Parkson opened the second store in Shanghai. Since 1996 to 2000, it has nearly opened 20 stores in China. Parkson group successfully listed on the Hong Kong stock exchange in 2005. On May 13, 2013, Parkson group opened the fourth store in Chongqing, it also has three department stores in Chongqing. From first store in Chongqing it has been 10 years.

On August 31, 2013, Parkson Shijiazhuang shop officially closed, this is the second time closed shop in Shijiazhuang. For the first time, is more than a decade ago, because different business philosophy of business model, brand positioning and many factors between the Chinese and foreign shareholders. This failure is because of poor preparation, at the same time, the traditional department store to the social, leisure entertainment is the development trend of current business style. Under this environment and trend, if the company can't keep pace with changes must be eliminated.

3.1.2 Structures of Parkson group

Board of Directors

The Board contains two executive directors, one non-executive director and three independent non-executive directors. To ensure a balance of power and rights, there is a specific division of obligations between the chairman and the managing director. The chairman is responsible for ensuring that the board of directors to manage orderly conduct. And Chief Executive Officer is responsible for the overall operations of the group and implementing the strategy and policy of the board of directors and managing the group's day-to-day operations.

Audit Committee

The Parkson group according to a resolution of the Directors passed on 9 November 2005, it has established the Audit Committee . The Audit Committee have the meeting at least twice a year and the Chief Financial Officer, Chief Internal Auditor, In-House Counsel, the Compliance Officer and a representative of the external auditors of the Company shall normally be invited to attend the meetings.

Remuneration Committee

The remuneration committee is responsible to the review and makes the group's compensation policies for the director (including executive director), thereby ensure that pay levels can enough to attract and retain the director, and they can effectively manage company and the group. Director does not participate in decisions regarding their own remuneration.

3.1.3 Competition

Parkson group have many competitors, for example Pacific Department Store in Shanghai. In 2001, the Pacific store asked for vendors do not supply goods to Parkson department, at that time, the branch number of Pacific department store in Shanghai more than Parkson, so some brands suppliers have to leave the Parkson.

Parkson was expanding stores at a high speed after entering the Chinese market. Since 1994, Parkson opened stores at a speed of 3 stores per year on average. At the same time, the first stores in Beijing captured Beijing consumer rely on all kinds of high quality brand and Beijing's Parkson stores also became a Beijing store benchmark. However, compared with the early years, Parkson has changed now, last year, with Parkson sales of 17.211 billion Yuan, a year-on-year growth of 4.8% over the same, same-store sales rose 0.4%, but net profit fell by 24.2%, from 1.123 billion Yuan in 2011 fell to 850 million Yuan. The decline in net profit for the first time is from 2005.

Since 2013, net profit is declining situation did not improve. In fact, Parkson in Beijing market situation is not optimistic, because the consumers decrease and the rent are not high. Parkson Tanganyikan shop opened only two years, some shoe brand has to leave also caused by poor performance. In 2013, four stores are closed consecutively. Now Parkson store started to adjust, it explains the leader want to reform.

3.2 Common-size analysis of Parkson group

In this part, we describe Parkson group company by common-size analysis. The simple balance sheet of Parkson group you can see in Tab. 3.1, balance sheet you can find in Annex 1. The short income statement of Parkson group you can see in Tab. 3.2, complete balance sheet you can find in Annex 2.

Tab. 3.1 Simple balance sheet of Parkson group (1000RMB).

	2008	2009	2010	2011	2012
Non-current assets	5,551,691	6,581,708	5,322,573	5,942,426	6,279,653
Current assets	4,282,425	4,492,392	7,268,736	6,120,252	6,420,884
Total assets	9,834,116	11,074,100	12,591,309	12,062,678	12,700,537
Non-current liabilities	3,898,418	3,070,425	2,014,989	2,840,083	481,889
Current liabilities	2,408,393	4,011,530	5,987,169	3,882,002	6,557,288
Shareholders' equity	3,527,305	3,992,145	4,589,151	5,340,593	5,661,360

Tab. 3.2 Short consolidated income statement of Parkson group (1000RMB).

	2008	2009	2010	2011	2012
Sales	2,971,677	3,275,199	3,630,857	4,138,485	4,282,376
Cost of sales	982,042	1,041,852	1,098,954	1,239,707	1,316,463
Gross profit	1,989,635	2,233,347	2,531,903	2,898,778	2,965,913
Other income	565,255	633,435	769,221	799,824	857,984
Selling and distribution expenses	378,540	500,354	575,687	671,855	905,864
Administrative expenses	264,632	275,960	359,483	380,344	488,472
Depreciation and amortization	152,513	166,223	179,962	236,164	294,844
Other operating expenses	548,040	594,052	718,065	901,310	1,012,671
Operating (loss)/profit	1,211,165	1,330,193	1,467,927	1,508,929	1,122,046
Finance income	245,747	210,976	213,930	287,068	190,985
Finance costs	331,757	317,980	354,260	277,770	108,294
EBT	1,126,130	1,223,766	1,327,908	1,518,573	1,204,881
Interest	317,372	312,982	341,444	280,416	77,280
EBIT	1,373,888	1,510,178	1,632,159	1,884,392	1,530,058
Taxation	247,758	286,412	304,251	365,819	325,177
EAT	878,372	937,354	1,023,657	1,152,754	879,704

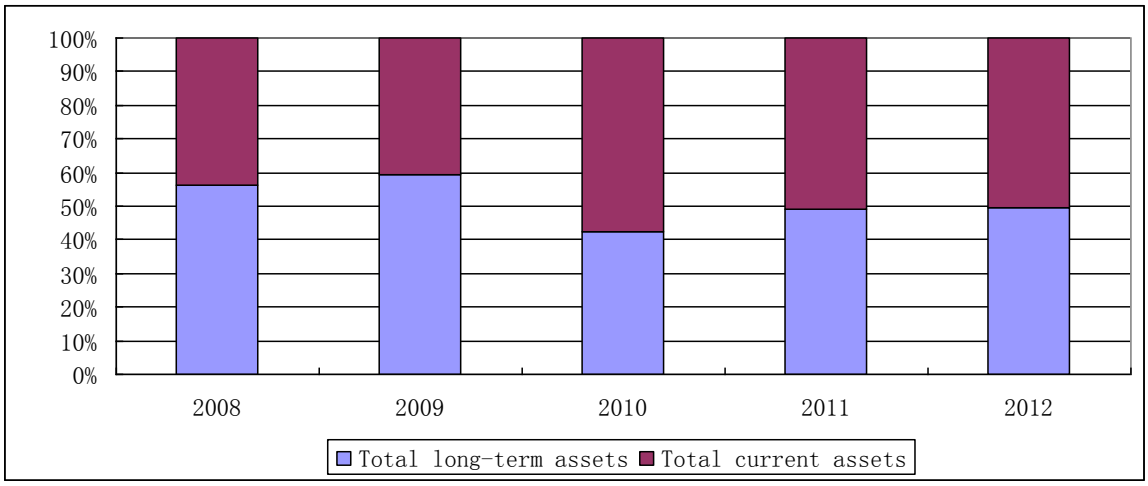
3.2.1 Vertical common-size analysis of Parkson group

This part is vertical common-size analysis of Parkson group. Vertical common-size analysis is more focuses on the internal structure analysis of each project in the internal of the statements. We calculate the proportion of each item in total assets, presented results of calculation in Tab. 3.3. The percentage changes are expressed in Chart 3.1.

Tab. 3.3 The proportion of each item in total assets (%).

	2008	2009	2010	2011	2012
Current assets	43.55	40.57	57.73	50.74	50.56
Cash and deposits	37.11	34.82	52.12	42.31	39.89
Account receivables	4.53	4.12	3.75	6.12	8.21
Inventories	1.91	1.62	1.86	2.31	2.45
Long-term assets	56.45	59.43	42.27	49.26	49.44
Total assets	100.00	100.00	100.00	100.00	100.00

Chart 3.1 Vertical common-size analysis of assets.



In this Tab. 3.3, we can see during this 5 years, the proportion of cash and deposits were increased in 2011, but decreased in other years. The proportion of account receivables firstly was decreased, then it was increased in 2011, and in 2012 the proportion is double than 2008. With new store opening, sales revenue has the rapid

growth, so sales growth is the direct reason of the account receivables increasing. The proportion of inventories decreased in 2009, increased in other years during this period. Because the increasing scales of sales with new stores, the company decides to increase more inventories. According to the vertical analysis, cash and deposits is biggest part in current assets. We know the company have a lot of cash is unable to achieve the benefit maximization, but the company didn't have enough diversified development, the bank interest rate is lower than previous years. At the same time the Parkson group also needs enough cash to relieve the pressure on liquidity.

The proportion of current assets is 43.55% in 2008, then it rises to 50.56% in 2012, and it rises to 57.73% in 2010. The proportion of long-term assets decreased in 2010, increased in other years, and 2010, 2011, 2012 this three years is lower than previous years a lot, main reason is unlisted held-to-maturity investments. And according to the vertical analysis, in 2008 and 2009, the current assets are lower than long-term assets, but in the other years, the current assets are higher than long-term assets. Because in 2008 and 2009 the Parkson group buy the the credit linked notes of long-term assets, the interest rate is 9.8% p.a., and it is higher than bank interest rate. For more profit, Parkson group decide to buy the credit linked notes. Due to the credit linked notes is finished in 2011. This is the reason why the percentage of current assets is higher than long-term assets in 2010.

Then we calculate the proportion of each item in total equity and liabilities, presented results of calculation in Tab. 3.4. For calculation, we use (2.3). The percentage changes are expressed in Chart 3.2.

Tab. 3.4 The proportion of each item in total equity and liabilities (%).

	2008	2009	2010	2011	2012
Total equity	35.87	36.05	36.45	44.27	44.58
Long-term liabilities	39.64	27.73	16.00	23.54	3.79
Current liabilities	24.49	36.22	47.55	32.18	51.63
Total liabilities	64.13	63.95	63.55	55.73	55.42
Total equity and liabilities	100.00	100.00	100.00	100.00	100.00

Chart 3.2 Vertical common-size analysis of equity and liabilities

In Tab. 3.4, we can see from 2008 to 2012, because the reserves of total equity is gradually increased, the proportion of total equity is increased. In recent years, the competition gets fiercer, and the Parkson group has to enhance the reserves. Meanwhile, the proportion of total liabilities gradually decreased. And the total liabilities are also higher than total equity.

In total liabilities, except 2008, the proportion of current liabilities is higher than long-term liabilities in the other years. The proportion of long-term liabilities also decreased in general, but increased in 2011, the proportion of current liabilities increased in general, but decreased in 2011. In 2012, the long-term liabilities only include long-term payables and deferred tax liabilities, so the percentage only has 3.79%. Because the interest rate of long-term liabilities is higher than before, and for reducing the risk, there are not the long-term loans in long-term liabilities. And there are term loan facilities in current liabilities. In 2008, the Parkson group have the senior guaranteed notes due May 2012, because the interest rate is 7.125%, is lower than before. So the long-term liabilities are higher than current liabilities.

We also made horizontal analysis of consolidated income statement. We calculate the proportion of each item in revenues with Tab. 3.2 and formula (2.1), results presented in Tab. 3.5. And we calculate the proportion of each item in expenses with Tab. 3.2 and (2.1), results are presented in Tab. 3.6.

Tab. 3.5 Vertical common-size analysis of revenues (%).

	2008	2009	2010	2011	2012
sales	84.02	83.79	82.52	83.80	83.31
service and other fees	6.77	6.75	6.55	6.56	6.49
rental income	3.84	4.06	3.83	4.20	4.79
Promotion income	2.29	1.70	1.70	1.78	1.99
leasing income	0.81	0.84	0.84	0.90	0.92
Government grants	0.27	0.32	0.38	0.27	0.13
other income	2.01	2.53	4.17	2.48	2.37
Total operating revenues	100.00	100.00	100.00	100.00	100.00

In Tab. 3.5, from the vertical analysis, we can see that the sales are the biggest part in the total operating revenues, it's typical for this type of company. The sales accounts was increased in 2011, decreased in other years during this period. The proportion of service and other fees was increased in 2011, decreased in other years, too. Because compare with 2010 the increasing of sales and other fees is higher than the increasing of other income in 2011. Meanwhile, other proportion accounts in total operating revenues are not very big, and the range of change is not very high. In 2010, we can see the other income is 4.17%, it is special higher than other years. From the annual report it has gain on disposal of a jointly-controlled entity in this year. The Parkson group disposed of its 55% equity interest in Yangzhou Parkson for a consideration of RMB 78,500,000 and recognised the cash consideration receivable in excess of the investment cost as a gain on disposal of a jointly-controlled entity.

Tab. 3.6 Vertical common-size analysis of expenses (%).

	2008	2009	2010	2011	2012
Cost of sales	42.22	40.41	37.48	36.15	32.76
Staff costs	11.38	10.70	12.26	11.09	12.16
Depreciation and amortization	6.56	6.45	6.14	6.89	7.34
Rental expenses	16.28	19.41	19.63	19.59	22.54
Other operating expenses	23.56	23.04	24.49	26.28	25.20
Total operating expenses	100.00	100.00	100.00	100.00	100.00

In Tab. 3.6, according to the vertical common-size analysis, we can see cost of sales accounts for a large proportion in total operating expenses, and it was gradually decreased year by year. The proportion of rental expenses was 16.28% in 2008, it rises to 22.54% in 2012, is a obvious change in operating expenses. The main reason of the change of the proportion is the rental expenses. In China, from 2008 to 2012, the rent expenses of commercial streets were increased in most cities, so the Parkson group had to increase the rental expenses. Meanwhile, with the more and more new stores opened, merchandise purchase quantity is bigger, so the Parkson group has more experience and lower cost of some goods. To a certain extent, the percentage of cost of sales can be decreased.

Other operating expenses is a second large proportion in total operating expenses, the change of proportion is not very high. And every year, the Parkson group has the new stores. Other operating expenses which consist of the utilities cost and so on Because of the new stores, these expenses must be increased. Especially some of the new remote store, management fees will be more growth.

3.2.2 Horizontal common-size analysis of Parkson group

This part describes horizontal common-size analysis of Parkson group, compare each item between two years. Results are presented absolute change in balance sheet you can see in Tab. 3.7. For calculation, we use Tab.3.1 and (2.5). Results are presented percentage change in balance sheet between two different time periods you can see in Tab. 3.8. For calculation, we use Tab.3.1 and (2.5).

Tab. 3.7 Absolute change of each item in balance sheet (1000RMB).

	2008/2009	2009/2010	2010/2011	2011/2012
Long-term assets	1,030,017	-1,259,135	619,853	337,227
Current assets	209,967	2,776,344	-1,148,484	300,632
Total assets	1,239,984	1,517,209	-528,631	637,859
Long-term liabilities	-827,993	-1,055,436	825,094	-2,358,194
Current liabilities	1,603,137	1,975,639	-2,105,167	2,675,286
Shareholders' equity	464,840	597,006	751,442	320,767

Tab. 3.8 Percentage change of each item in balance sheet (%).

	2008/2009	2009/2010	2010/2011	2011/2012
Long-term assets	18.55	-19.13	11.65	5.67
Current assets	4.90	61.80	-15.80	4.91
Total assets	12.61	13.70	-4.20	5.29
Long-term liabilities	-21.24	-34.37	40.95	-83.03
Current liabilities	66.56	49.25	-35.16	68.92
Shareholders' equity	13.18	14.95	16.37	6.01

In Tab. 3.7 and Tab. 3.8, according to the horizontal common-size analysis, between 2009 and 2010, the long-term assets decreased 1259.135 million RMB and declined about 19.3%, it's different from other years. Because some notes are expired, but this year interest rate is not high, so the Parkson group didn't buy the new notes. And with the more and more new stores, the property, plant and equipment get more and more, too. So between 2010 and 2012, the changes of long-term assets are positive, it increased 619.835 million RMB and 337.227 million RMB. In current assets, between 2009 and 2010, it increased 2776.344 million RMB and it increased about 61.8%, the change is bigger than other years. Because some notes from the long-term assets into current assets and Parkson group have more investment in principal guaranteed deposits. In 2010 the Parkson group in order to open four new stores and some loans will expire, so the Parkson group has to get the investment in principal guaranteed deposits. Then between 2010 and 2011, current assets decreased 1148.484 million RMB and it declined about 15.80%. Because some current notes are expired, and this year doesn't have the appropriate interest rate, so the Parkson group can't buy the other current notes.

In long-term liabilities, between 2010 and 2011, it increased 825.094 million RMB and it increased about 40.95$, then in the other years the changes are negative. Because the Parkson group in order to open the four new stores, the company entered into an agreement with a number of overseas banks to borrow a loan on 10 November 2010, so this year the change is positive. In current liabilities, the change is negative between 2010 and 2011, it decreased 2105.167 million RMB and it declined about 35.16%. Because in 2011 the interest rate of long-term liabilities is lower than other years, so the Parkson group decided to buy the long-term debt instead of current debts.

We also made horizontal analysis of income statement. Results are presented absolute change in consolidated income statement you can see Tab. 3.9. For calculation, we use Tab. 3.2 and (2.5).

Tab. 3.9 Absolute change of each item in consolidated income statement (1000RMB).

	2009/2008	**2010/2009**	**2011/2010**	**2012/2011**
Sales	303,522	355,658	507,628	143,891
Cost of sales	59,810	57,102	140,753	76,756
Net sale	243,712	298,556	366,875	67,135
Other income	68,180	135,786	30,603	58,160
Rental expenses	121,814	75,333	96,168	234,009
Administrative expenses	11,328	83,523	20,861	108,128
Depreciation and amortization	13,710	13,739	56,202	58,680
Other operating expenses	46,012	124,013	183,245	111,361
Operating (loss)/profit	119,028	137,734	41,002	-386,883
Finance income	-34,771	2,954	73,138	-96,083
Finance costs	-13,777	36,280	-76,490	-169,476
EBT	97,636	104,142	190,665	-313,692
interest	-4,390	28,462	-61,028	-203,136
EBIT	136,290	121,981	252,233	-354,334
Taxation	38,654	17,839	61,568	-40,642
EAT	58,982	86,303	129,097	-273,050

Results are presented percentage change in consolidated income statement between two different time periods in Tab. 3.10. For calculation, we use Tab. 3.2 and (2.5).

Tab. 3.10 Percentage change of each item in consolidated income statement (%).

	2009/2008	2010/2009	2011/2010	2012/2011
Sales	10.21%	10.86%	13.98%	3.48%
Cost of sales	6.09%	5.48%	12.81%	6.19%
Net sale	12.25%	13.37%	14.49%	2.32%
Other income	12.06%	21.44%	3.98%	7.27%
Rental expenses	32.18%	15.06%	16.70%	34.83%
Administrative expenses	4.28%	30.27%	5.80%	28.43%
Depreciation and amortization	8.99%	8.27%	31.23%	24.85%
Other operating expenses	8.40%	20.88%	25.52%	12.36%
Operating (loss)/profit	9.83%	10.35%	2.79%	-25.64%
Finance income	-14.15%	1.40%	34.19%	-33.47%
Finance costs	-4.15%	11.41%	-21.59%	-61.01%
EBT	8.67%	8.51%	14.36%	-20.66%
interest	-1.38%	9.09%	-17.87%	-72.44%
EBIT	9.92%	8.08%	15.45%	-18.80%
Taxation	15.60%	6.23%	20.24%	-11.11%
EAT	6.71%	9.21%	12.61%	-23.69%

In Tab. 3.9 and Tab. 3.10, according to the horizontal analysis, the sales and cost of sales always are increased from 2008 to 2012, because the Parkson group opens the new stores every year. Rental expenses is increased a lot in 2009 and 2012, the number is 121.814 million RMB and 234.009 million RMB, the percentage is 32.18% and 34.83%, because this two years the rent of Chinese market is increased. From 2010 to 2012 the growth is gradually increased in depreciation and amortization, it increased from 13.739 million RMB to 58.680 million RMB, because the additional depreciation cost in relation to the remodeled stores.

From 2008 to 2011, the changes of EAT are increased, because the Parkson group can get more profit from the new stores. But between 2012 and 2011, the changes of EAT are also negative and different from other years, it decreased 273.050 million RMB and it declined about 23.69%. The main reason is expenses, the higher operating

expenses contributed by the increasing new stores and the leases extension. Due to the increasingly competitive market place, the economic growth is weaker and operating environment is relatively tougher. The other reason is the RMB 19.1 million of employee share option expense in relation to share option granted in the month of November 2012, so the expenses is very high. And operating profit, EBT and EBIT have similar reasons.

4 Financial analysis of Parkson group

In this chapter, we will measure company's financial situation by financial ratio analysis. For calculation, we will use methodology and formula describe in chapter 2. This chapter is divided into five parts: liquidity of Parkson group, activity of Parkson group, solvency of Parkson group, profitability of Parkson group and DuPont analysis of Parkson group.

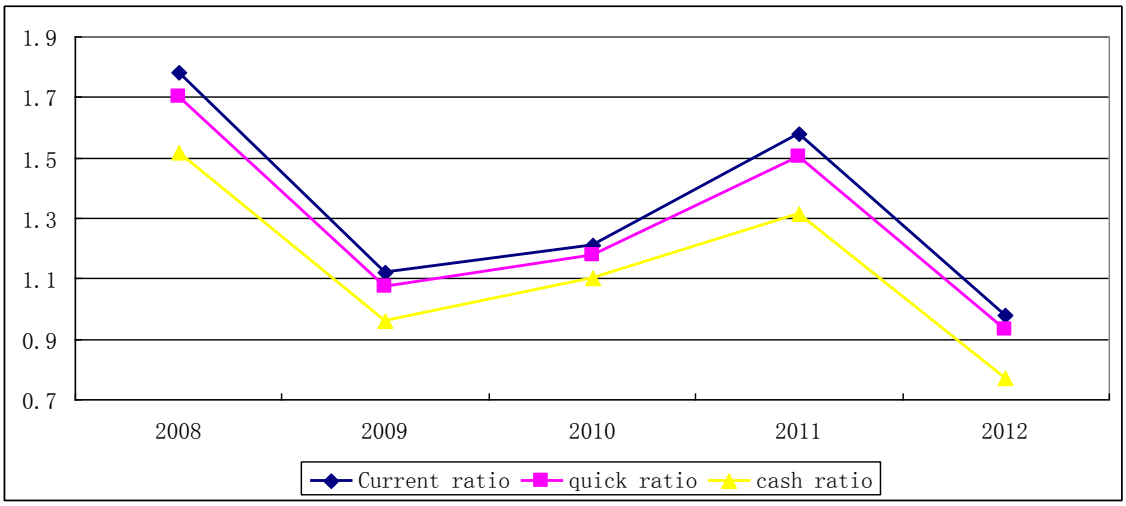
4.1 Liquidity ratios of Parkson group

In this part, we use current ratio, quick ratio and cash ratio to measure Parkson group's ability to pay its bills in the short run. Results are presented in Tab 4.1. and Chart 4.1.

Tab. 4.1 Current ratio of Parkson group.

	2008	2009	2010	2011	2012
Current ratio	1.78	1.12	1.21	1.58	0.98
Quick ratio	1.70	1.08	1.17	1.50	0.93
Cash ratio	1.52	0.96	1.10	1.31	0.77

Chart 4.1 Trend of current ratio, quick ratio and cash ratio.



Current ratio

For calculation, we need to know current assets and current liabilities, then use (2.6), results are presented in Tab. 4.1 and Chart 4.1. We can see current ratio decreased in 2009, the main reason is the increasing of current liabilities is larger than the increasing of current assets, because in 2009, the Parkson group gets more current debts. In 2011, the current ratio is increased and the number is 1.58%, the main reason is the decreasing of current liabilities is larger than the decreasing of current assets, because the Parkson group doesn't have the current debt in 2011. The current ratio between 1.5 and 2.5 is good for a company, so in 2011, the Parkson group's liquidity is good, it has ability to repay short-term obligation.

Then in 2012, the current ratio is decreased a lot, the main reason is the increasing of current liabilities is larger than the increasing of current assets a lot, because the Parkson group has the term loan facilities in 2012. But the current ratio is below 1, it explains the Parkson group's liquidity is poor, it doesn't have the ability to repay short-term obligation.

Quick ratio

For calculation, we need to know cash, short-term marketable investments, receivables and current liabilities, then use (2.7), and results are presented in Tab. 4.1 and Chart 4.1. We can see the line of quick ratio is very similar to the line of current ratio. And the main reason is similar to the current ratio, too. Because the quick ratio compare with the current ratio, it does not have the inventories in current assets, so the numerator of (2.7) is smaller. And the quick ratio between 1 and 1.5 is good for a company, in addition to 2008 is 1.70 and 2012 is 0.93, other years quick ratio between 1 and 1.5. So the Parkson group has the ability that current can be converted into cash immediately to repay current liabilities.

Cash ratio

For calculation, we need to know cash, short-term marketable investments and current liabilities, then use (2.8), and results are presented in Tab. We can see the line of cash ratio is similar to the quick ratio and current ratio. And the reason is similar to the quick ratio. Because the cash ratio compare with the current ratio, it does not have

inventory and receivables in the numerator of (2.7). Cash ratio should be higher 0.2, but it can't too high. The cash ratio of Parkson group is from 0.77 to 1.52, so it's higher than 0.2 from 2008 to 2012, it means the liquidity is high, but cash accounted for a large proportion of company's debt repayment and the current assets of Parkson group maybe don't get reasonable using.

4.2 Activity ratios of Parkson group

In this part, we use inventory turnover, receivable turnover, total assets turnover, days sales of inventory and days of sales outstanding to measure how efficiency Parkson group uses its assets. Results of turnovers are presented in Tab 4.2.

Tab. 4.2 Turnovers of Parkson group.

	2008	2009	2010	2011	2012
Inventory turnover	5.23	5.79	4.70	4.45	4.23
Receivable turnover	7.94	8.56	9.32	6.69	4.93
Total assets turnover	0.36	0.35	0.35	0.41	0.40

Inventory turnover

For calculation, we need to know cost of goods sold and average inventory, and then use (2.9), results are presented in Tab. 4.2. We can see the inventory turnover is 5.79; it is increased in 2009, and in other years is decreased. The main reason is the inventory is decreased in 2009 and the increasing of inventory is higher than the increasing of cost of goods sold in other years. Because in 2009, the slower demands from the major export markets, the Parkson group decides to decrease inventories, and in other years, with the new stores opening, the inventories are increased. In general, if the inventory turnover ratio can be larger, it is good for the company. So in Parkson group the ratio is around 5, the ratio compared with the same industry is normal.

Receivable turnover

For calculation, we need to know total revenue and average receivables, then use (2.12), the result presented in Tab. 4.2. We can see from 2008 to 2010, the ratio is increased from 7.94 to 9.32. The main reason is the increasing of total revenue is higher

than average receivables. The ratio is higher than 4, it means during this period, the Parkson group can get their receivables immediately, it will reduce bad debt losses. From 2010 to 2012, the ratio is decreased from 9.32 to 4.93. The main reason is the increasing of average receivables is higher than total revenue. Because more and more fierce competition, forced firms to use all kinds of hand to expand sales, credit sales as the main ways of enterprise to expand sales, so receivables have to be increased. Then the receivable turnover ratio should be around 4 in a company, so the ratios in Parkson group are good.

Total assets turnover

For calculation, we need to know total revenues and average total assets, then use (2.19), results are presented in Tab. 4.2. We can see the ratio is from 0.35 to 0.41, it's very stable. From 0.35 to 0.41 between 2010 and 2011, the main reason is the total assets are decreased and the total revenues are increased. This ratio can measure company's efficiency in asset management, so the higher the ratio, show that higher efficiency of using assets. But in Parkson group, this ratio is low, so it's bad signal for the company.

Results of days sales are presented in Tab. 4.3.

Tab. 4.3 Days sales of Parkson group.

	2008	2009	2010	2011	2012
Days sales of inventory	69.83	63.03	77.66	81.95	86.36
Days of sales outstanding	45.98	42.62	39.18	54.59	74.06

Days sales of inventory

For calculation, we need to know inventory and cost of good sold, and then use (2.11), results are presented in Tab. 4.3. We can see the ratio is decreased in 2009, from 69.83 to 63.03, and then it is increased between2009 and 2012, from 63.03 to 86.36. The main reason is similar to the inventory turnover. For this ratio, the smaller is better, because it means the period inventory converted to cash is shorter. But in Parkson group the ratio is increasing, it is bad to the company.

Days of sales outstanding

For the calculation, we need to know receivables and revenue, then use (2.13), results are presented in Tab. 4.3. We can see the ratio is decreased between 2008 and 2010, from 45.98 to 39.18, and then it is increased between 2010 and 2012, from 39.18 to 74.06. The main reason is similar to the receivable turnover. For this ratio, the smaller is better, because it means the time between sales and withdraw cash is shorter, the better efficiency of using funds. But the ratio is increasing in Parkson group, so it's bad to the company.

4.3 Solvency ratios of Parkson group

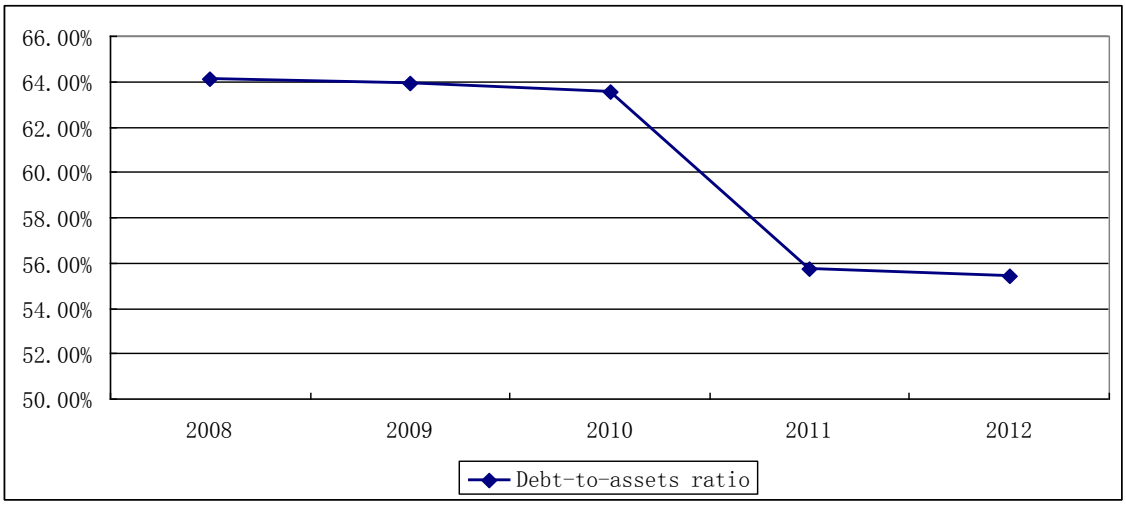
In this part, we use debt to assets ratio, debt to equity ratio and interest coverage ratio to measure Parkson group's ability to measure its liabilities. Results of debt-to-assets ratio are presented in Tab 4.4 and Chart 4.2.

Debt to assets ratio

Tab. 4.4 Debt-to-assets of Parkson group (%).

	2008	2009	2010	2011	2012
Debt-to-assets ratio	64.13	63.95	63.55	55.73	55.42

Chart 4.2 Trend of debt-to-assets ratio.



For calculation, we need to know total debt and total assets, then use (2.20), results are presented in Tab. 4.4 and Chart 4.2. We can see from 2010 to 2011, the ratio is decreased from 63.55% to 55.73%. The main reason is total assets is increased from 2008 to 2012, but total debt is decreased a lot in 2011, because the current liabilities are decreased. The ratio should be about 50% or lower, debt to assets ratio of Parkson group is not very good between 2008 and 2010, but it's decreasing, so it's a good signal to the company. The risk in Parkson group is decreasing, the ability of paying liabilities get stronger.

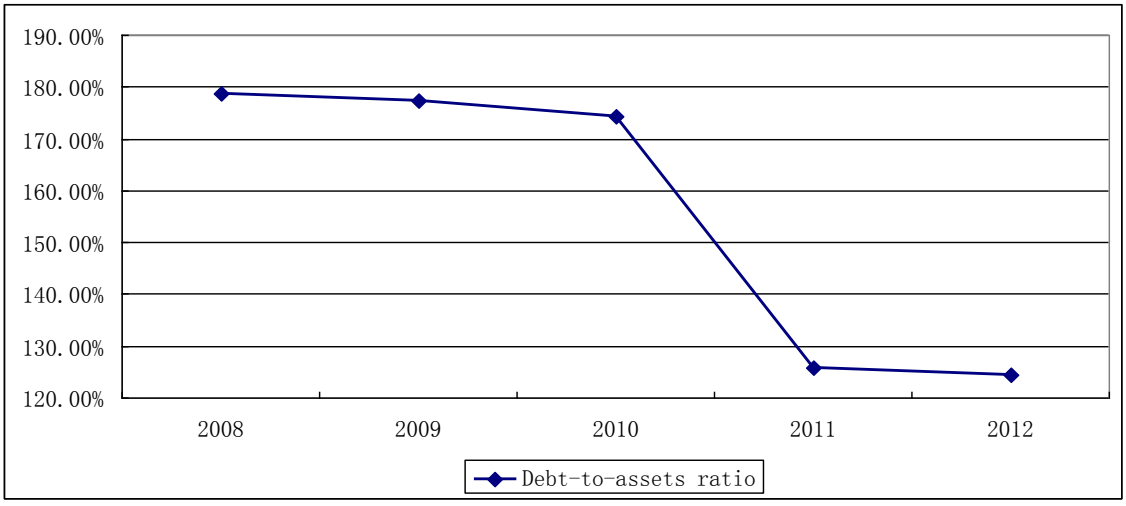
Debt to equity ratio

Results of debt-to-equity ratio are presented in Tab 4.5 and Chart 4.3.

Tab. 4.5 Debt-to-equity of Parkson group (%).

	2008	2009	2010	2011	2012
Debt-to-assets ratio	178.80	177.40	174.37	125.87	124.34

Chart 4.3 Trend of debt-to-equity ratio.



For calculation, we need to know total debt and total equity, then use (2.21), results are presented in Tab. 4.5 and Chart 4.3. We can see the ratio is always decreased from 2008 to 2012, but between 2010 and 2011, the decrease is very big, from 174.37% to 125.87%. The main reason is the total equity is increased from 2008 to 2012 and total debt is decreased a lot in 2011, because the current liabilities are decreased in 2011.

Debt to equity ratio should be around 100%, so the ratio is higher than 100%, it means too much debts can put company's business at risk. But the ratio in the Parkson group is decreasing and closer to 100%, so it's good signal to the company.

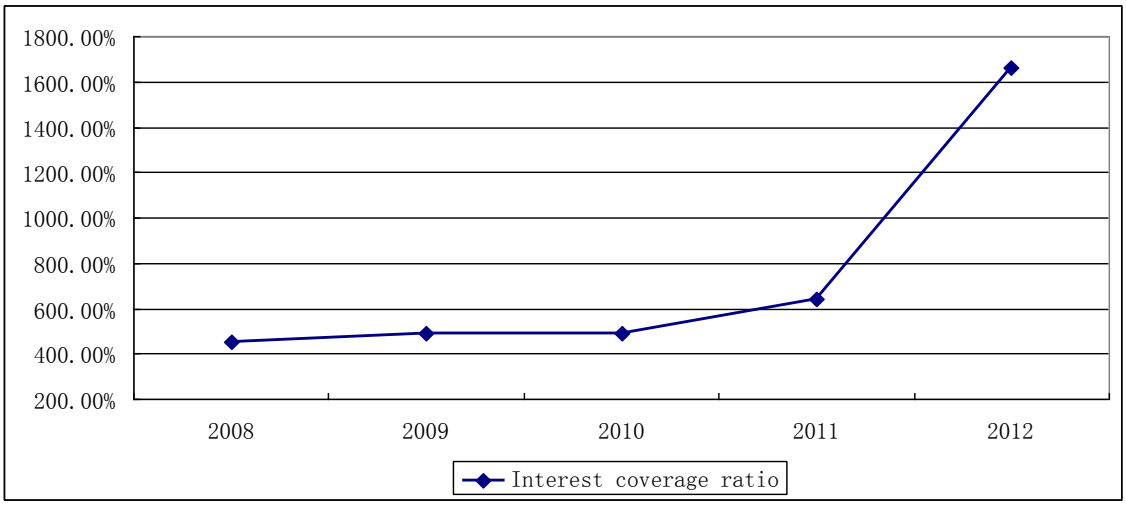
Interest period coverage

Results of interest coverage ratio are presented in Tab 4.6 and Chart 4.4.

Tab. 4.6 Interest coverage ratio of Parkson group (%).

	2008	2009	2010	2011	2012
Interest coverage ratio	454.83	491.00	488.91	641.54	1659.11

Chart 4.4 Trend of interest coverage ratio.



For calculation, we need to know EBIT and interest expenses, then use (2.23), results are presented in Tab. 4.6 and Chart 4.4. We can see the ratio is almost increased from 2008 to 2012, between 2011 and 2012 the increase is very big, from 641.54% to 1659.11%. The main reason is the decreasing of interest payments is higher than decreasing of EBIT. Because many debts to expire in 2012. When interest coverage ratio equals to 100%, it means company's EBIT just pay the interest expenses, so the ratio should be higher than 150%. In Parkson group, the ratio is much higher than 150%, so during 2008 to 2012, company can enough to pay interest payment and business income is good.

4.4 Profitability ratios of Parkson group

In this part, we will use operating margin, return on assets and return on equity to measure Parkson group's ability to get profit during the years. Results of operating margin are presented in Tab 4.7.

operating margin

Tab. 4.7 Operating margin of Parkson group (%).

	2008	2009	2010	2011	2012
Operating margin	40.81	39.32	37.94	36.43	24.94

For calculation, we need to know EBIT and total revenues, and then use (2.28), results are presented in Tab. 4.7. We can see the ratio is decreased between 2008 and 2012, from 40.81% to 24.94%. The main reason is the increasing of total revenues is higher than the increasing of EBIT between 2008 and 2011. Then the EBIT is decreased in 2012, so the decline of the ratio is bigger. Because the higher operating expenses contributed by the increasing new stores and the leases extension, the EBIT had to decreased. For this ratio, higher is better, but in Parkson group the ratio is decreasing, it means the company's profit ability becomes poor, it's bad to the company.

Return on assets

Results of return on assets are presented in Tab 4.8.

Tab. 4.8 Return on assets of Parkson group (%).

	2008	2009	2010	2011	2012
Return on assets	14.68	13.88	13.26	14.91	10.10

For calculation, we need to know EBIT and total assets, and then use (2.32), results are presented in Tab. 4.8. We can see the ratio is increased in 2011, and in other years, the ratio is decreased, from 14.68% to 10.10%. The main reason is total assets is decreased in 2011 and it is increased in other years. Because in 2011 it lacks held-to-maturity investments compare with 2012. In 2012, EBIT is decreased and in other years EBIT is increased. For this ratio, higher is better, it means the better utilization of assets in the company. In Parkson group, the ratio is decreasing. It's bad to the company.

Return on equity

Results of return on equity are presented in Tab 4.9.

Tab. 4.9 Return on equity of Parkson group (%).

	2008	2009	2010	2011	2012
Return on equity	24.90	23.48	22.31	21.58	15.54

For calculation, we need to know EAT and total equity, then use (2.34), results are presented in Tab. 4.9. We can see the ratio is decreased from 24.90% to 15.54% between 2008 and 2012. The main reason is the increasing of total equity is higher than the increasing of EAT between 2008 and 2011. In 2012, the EAT is decreased, and the ratio is 15.54%. Because in 2012, the higher operating expenses contributed by the increasing new stores and the leases extension. This is one of the most important ratios in profitability ratios, for this ratio, higher is better, it means the profitability of owner's equity id good. But in Parkson group, this ratio is decreasing, so company gradually can't make enough profit to compensate for the risk.

4.5 DuPont analysis of Parkson group

In this part, we will use DuPont analysis to analyze Parkson group's profit level. For calculation, we use (2.35), (2.36) and (2.37) to decompose ROE.

Then we can see the value of ROE, net profit margin, assets turnover, financial leverage, tax burden, interest burden and EBIT margin in Tab. 4.10. The absolute change of each item between 2 years from 2008 to 2012 is in Tab. 4.11. We can see ROE is decreased, so we want to change some items of decomposition to improve ROE.

Tab. 4.10 The value of each items in decomposition.

	2008	2009	2010	2011	2012
ROE	0.2490	0.2348	0.2231	0.2158	0.1554
Net profit margin	0.2483	0.2398	0.2326	0.2334	0.1711
Assets turnover	0.3597	0.3530	0.3495	0.4094	0.4047
Financial leverage	2.7880	2.7740	2.7437	2.2587	2.2434
Tax burden	0.7800	0.7660	0.7709	0.7591	0.7301
Interest burden	0.7801	0.7963	0.7955	0.8441	0.9397
EBIT margin	0.4081	0.3932	0.3794	0.3643	0.2494

Tab. 4.11 Absolute change of each item in decomposition.

	2008/2009	2009/2010	2010/2011	2011/2012
ROE	-0.0142	-0.0117	-0.0072	-0.0605
Net profit margin	-0.0085	-0.0072	0.0008	-0.0623
Assets turnover	-0.0067	-0.0035	0.0599	-0.0047
Financial leverage	-0.0140	-0.0303	-0.4850	-0.0153
Tax burden	-0.0140	0.0049	-0.0118	-0.0290
Interest burden	0.0162	-0.0009	0.0487	0.0956
EBIT margin	-0.0150	-0.0138	-0.0151	-0.1149

We will analyze the impact of the changes in component ratios on the basic ratio by method of gradual changes. ROE and net profit margin are basic ratios and net profit margin, assets turnover, financial leverage, tax burden, interest burden and EBIT margin are component ratios. For example, between 2008 and 2009 we can see the method of gradual changes in Tab 4.12.

Tab. 4.12 Gradual changes of ROE between 2008 and 2009.

	2008	2009	2008/2009(Δ a)	Δ Xai	order
Net profit margin (a1)	0.2483	0.2398	-0.0085	-0.0085	1
Assets turnover (a2)	0.3597	0.3530	-0.0067	-0.0045	2
Financial leverage (a3)	2.7880	2.7740	-0.0140	-0.0012	3
Sum				-0.0142	

For a1: Δ ROEa1 = -0.0085 * 0.3587 * 2.7880 = -0.0085. (4.1)

For a2: Δ ROEa2 = 0.2398 * (-0.0067) * 2.7880 = -0.0045. (4.2)

For a3: Δ ROEa3 = 0.2398 * 0.3530 * (-0.0140) = -0.0012. (4.3)

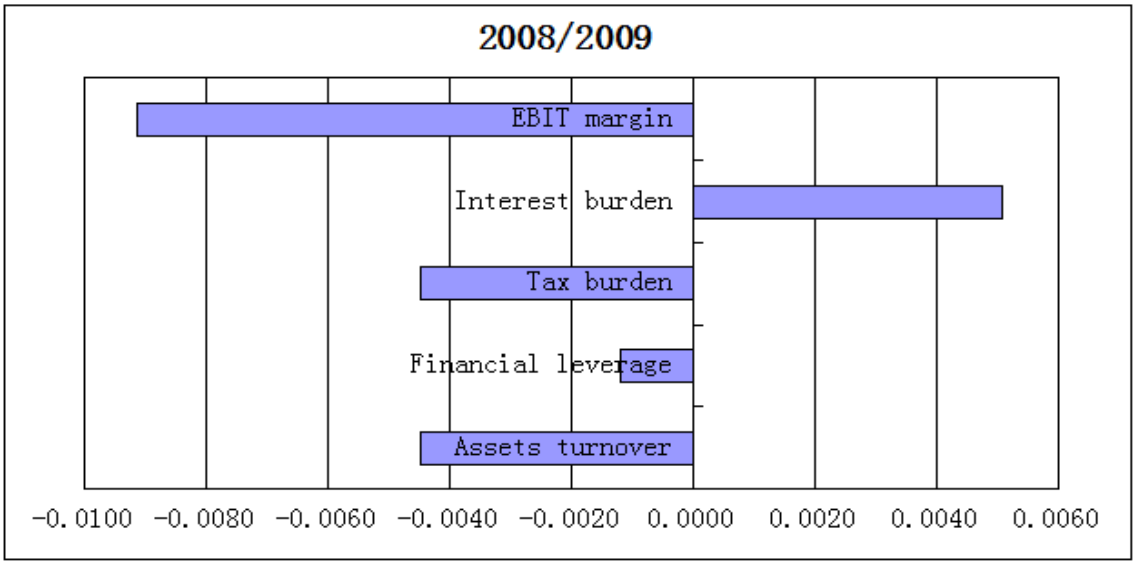
And their sum is the equal to change of ROE between 2008 and 2009. Then we can see other Δ Xai during 2008 to 2012 in Tab. 4.13, the second sum is equal to the change of net profit margin.

Tab. 4.13 Gradual changes of each item.

Δ Xai	2008/2009	2009/2010	2010/2011	2011/2012
Net profit margin	-0.0085	-0.0070	0.0008	-0.0576
Assets turnover	-0.0045	-0.0023	0.0384	-0.0018
Financial leverage	-0.0012	-0.0025	-0.0464	-0.0011
Sum	-0.0142	-0.0117	-0.0072	-0.0605
Tax burden	-0.0045	0.0015	-0.0036	-0.0089
Interest burden	0.0051	-0.0003	0.0140	0.0254
EBIT margin	-0.0091	-0.0084	-0.0097	-0.0788
Sum	-0.0085	-0.0072	0.0008	-0.0623

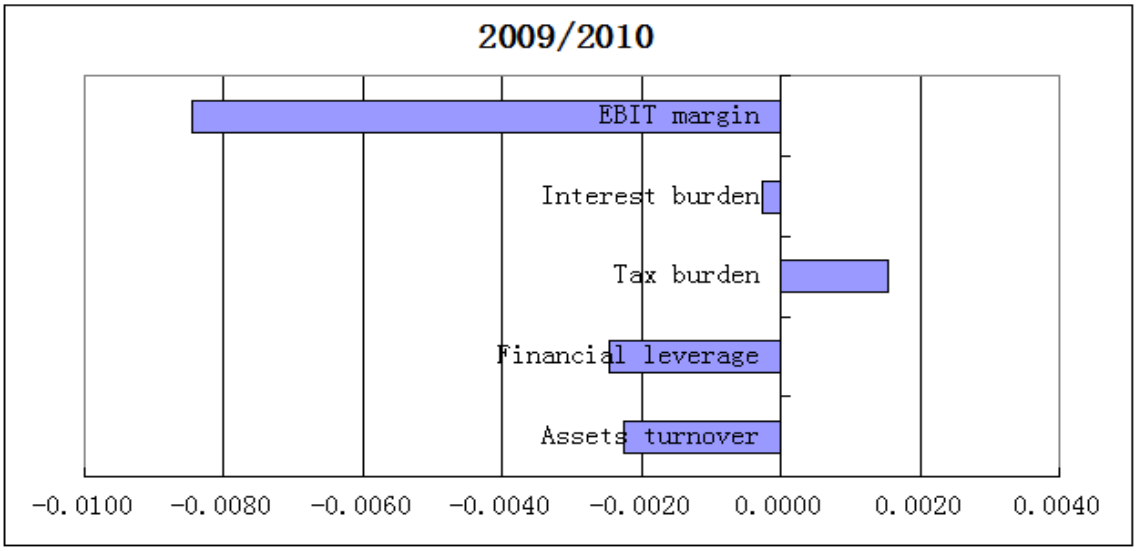
So we can compare these indexes to analyze how to improve the Parkson group's profitability.

Chart 4.5 Influence of each item between 2008 and 2009..



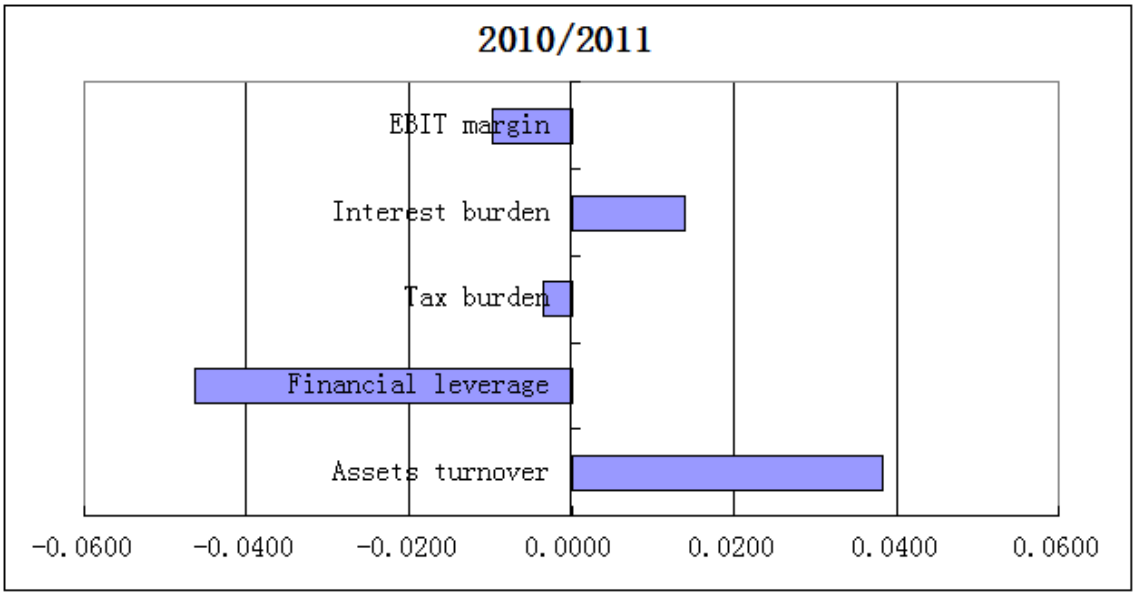
From Chart 4.5, between 2008 and 2009, we can see the ΔXai of EBIT margin is negative and the number is -0.0091, the minimum number in decomposition. EBIT margin should to use EBIT and revenues, because the increasing of revenues is higher than the increasing of EBIT, so the EBIT margin is decreased. According to the principle of the gradual changes in DuPont analysis, Parkson group should increase the ΔXai of EBIT margin to improve the ΔXai of net profit margin, and then to improve the change of ROE.

Chart 4.6 Influence of each item between 2009 and 2010.



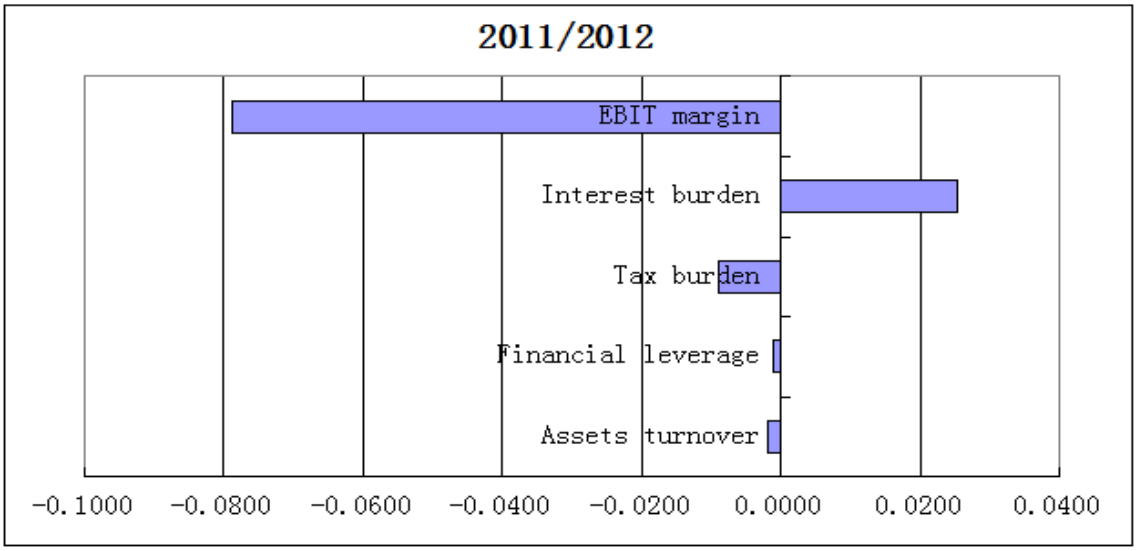
From Chart 4.6, between 2009 and 2010, we can see the Δ Xai of EBIT margin is negative and the number is -0.0084, the minimum number in decomposition. EBIT margin should to use EBIT and revenues, because the increasing of revenues is higher than the increasing of EBIT, so the EBIT margin is decreased. According to the principle of the gradual changes in DuPont analysis, Parkson group should increase the Δ Xai of EBIT margin to improve the Δ Xai of net profit margin, and then to improve the change of ROE.

Chart 4.7 Influence of each item between 2010 and 2011.



From Chart 4.7, between 2010 and 2011, we can see the Δ Xai of financial leverage is negative and the number is -0.0464, the minimum number in decomposition. Financial leverage should to use total assets and equity, because the total assets are decreased in 2011, the main reason is some notes are expired. According to the principle of the gradual changes in DuPont analysis, Parkson group should increase the Δ Xai of financial leverage to improve the change of ROE.

Chart 4.8 Influence of each item between 2011 and 2012.



From Chart 4.6, between 2011 and 2012, we can see the ΔXai of EBIT margin is negative and the number is -0.0788, the minimum number in decomposition. EBIT margin should to use EBIT and revenues, because the EBIT is decreased, so the EBIT margin is decreased. According to the principle of the gradual changes in DuPont analysis, Parkson group should increase the ΔXai of EBIT margin to improve the ΔXai of net profit margin, and then to improve the change of ROE.

4.6 Summary

In this part, we will use results to make financial analysis from four parts: liquidity ratios, activity ratios, solvency ratios and profitability ratios.

For liquidity ratios, current ratio, quick ratio and cash ratio have the similar trend, and they are decreased in 2012 compare with other years. In 2012, current ratio and quick ratio is lower than normal range, because the Parkson group has the term loan facilities in 2012. The cash ratio is from 1.52 to 0.77 between 2008 and 2012, it's higher than normal range, but it's decreasing. So Parkson group's liquidity maybe is not very well in the future.

For activity ratios, we analyze from two parts, turnovers and days. In 2012, inventory turnover and receivable turnover are decreased. Because more and more fierce competition, forced firms to use all kind off hand to expand sales, so credit sales as the main way to expand sales. Receivable turnover is larger than the normal range, but it is decreasing. And the total assets turnover is lower than 0.5 from 2008 to 2012, it's low of the ratio. Days sales of inventory and days of sales outstanding become more and more between 2008 and 2009. So it's not good to Parkson group in the future and the assets maybe are not used efficiently in the future.

For the solvency ratios, the debt-to-assets and the debt-to-equity are decreased a lot in 2011, because current liabilities are decreased. In 2012, they are closed to 50% and 100% respectively. It is more close to the normal range. Although the ratio is not in the normal range, it is good signal for Parkson group in the future. And interest period coverage is higher than 150% at all between 2008 and 2012. And in 2012, the ratio is big increased from 641.54% to 1659.11%, because many debts to expire in 2012. So the solvency of Parkson group maybe is good in the future. It has ability to pay its liabilities.

For profitability ratios, the operating margin, return on assets and return on equity are decreased a lot in 2012. They are decreased from 36.43% to 24.94%, 14.91% to 10.10% and 21.58% to 15.54% respectively. The main reason is the higher operating expenses contributed by the increasing new stores and the leases extension. It means maybe Parkson group's profitability is decreasing in the future, because the market competitions become fiercer. And according to the principle of the gradual changes in DuPont analysis, we hope ΔXai of financial leverage would be increased in 2011 and ΔXai of EBIT margin would be increased in other years and then the return on equity can be improved. In general, Parkson group's ability of profitability maybe gets poor in the future.

In summary, Parkson group's financial performance and situation was not very good from 2008 to 2012.

5 Conclusion

According to the results of company's financial analysis, it can be seen that the company's financial situation is reasonable or not. So creditors can consider whether they should lend money to the company, and investors can consider whether the company should invest. At the same time, managers can also according to the current financial situation, to find out where should be improved.

The aim of this thesis is assessment of financial health of Parkson group, we selected 5 years as one analysis period, from 2008 to 2012. This thesis was focused on two financial analysis methodology and one company: common-size analysis, financial ratio analysis and Parkson group.

This thesis was divided into five parts, first and last chapter is introduction and conclusion, second chapter is theoretical description, third part is about Parkson group company, and fouth part is calculation and application.

In chapter 2, we introduced financial statements, common-size analysis and financial ratios. Firstly, financial statements was divided into three parts, balance sheet, income statement and cash flow statement, we described their definition of items. Secondly, common-size analysis was divided into two parts, horizontal common-size analysis and vertical common-size analysis; we described their definition and related formulas, the proportion of project, absolute change and percentage change. Then, financial ratios were divided into four parts: liquidity ratios, activity ratios, solvency ratios and profitability ratios, we described the formulas of each ratio were listed after definition of them.

In chapter 3, we described company profile of Parkson group at first, about their history, structures and competition, then we described common-size analysis of Parkson group. We collected useful data from balance sheet and consolidated income statement of Parkson group, and we use vertical common-size analysis to made comparison of same year between different items in balance sheet and income statement, we explained reasons of big changed and trends. Next, we use horizontal common-size analysis to made comparison of same items between two different years from 2008 to 2012, we

calculated absolute changes and percentage changes of each item in balance sheet and consolidated income statement, and we explained reason about what happened of the company between two years.

In chapter 4, we used financial analysis methodology and formulas that was described in chapter 2 to calculate some key financial ratios: liquidity, activity, solvency and profitability. The results of calculation were presented in table and chart, and then we explained reasons of some big changes. Next, we compared the ratio with the normal range and judged the ability in Parkson group. At the end of chapter, we made DuPont analysis to analyze the profit level of Parkson group, the influence of each item between two different years from 2008 to 2012 were presented in charts.

After a series financial analysis, we can find that financial situation of Parkson group company was not very good from 2008 to 2012. Company's liquidity was not very good during this period, the cash ratio is from 1.52 to 0.77 between 2008 and 2012, it's higher than normal range, so it means maybe the company didn't have the enough ability to repay short-term obligation. Company's activity was also not good during this period, total assets turnover is lower than 0.5 between 2008 and 2012, it's low of the ratio, so it means maybe the assets are not used efficiently. Company's solvency was good during this period; interest period coverage is higher than 150% at all between 2008 and 2012, so it means maybe they have ability to pay its liabilities. Company's profitability was bad during this period, the operating margin are decreased from 36.43% to 24.94% in 2012, so it means maybe they can't make enough profit to compensate for the risk.

Parkson group is one of largest chain shopping stores in China, but their financial situation was not very good between 2008 and 2012, because the increasingly competitive market place, the economic growth is weaker and operating environment is relatively tougher. So Parkson group should to innovate, and learning the business models of popular shopping malls. For example, each floor to open some restaurants and introduce some brands that other stores don't have them, rather than to open new same stores.

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List of Abbreviations

CFCR	Cash flow coverage ratio
DSCR	Debt service coverage ratio
DSI	Days sales of inventory
DSO	Days of sales outstanding
DTAR	Debt-to-assets ratio
DTER	Debt-to-equity ratio
FAT	Fixed assets turnover
FCCR	Fixed-charge coverage ratio
GPM	Gross profit margin
IT	Inventory turnover
NODOP	Number of days of payables
PT	Payable turnover
ROA	Return on assets
ROE	Return on equity
RT	Receivable turnover
TAT	Total asset turnover

Declaration of Utilization of Results from a Diploma (Bachelor) Thesis

Herewith I declare that

- I am informed that Act No. 121/2000 Coll. – the Copyright Act, in particular, Section 35 – Utilization of the Work as a Part of Civil and Religious Ceremonies, as a Part of School Performances and the Utilization of a School Work – and Section 60 – School Work, fully applies to my diploma (bachelor) thesis;
- I take account of the VSB – Technical University of Ostrava (hereinafter as VSB-TUO) having the right to utilize the diploma (bachelor) thesis (under Section 35(3)) unprofitably and for own use ;
- I agree that the diploma (bachelor) thesis shall be archived in the electronic form in VSB-TUO's Central Library and one copy shall be kept by the supervisor of the diploma (bachelor) thesis. I agree that the bibliographic information about the diploma (bachelor) thesis shall be published in VSB-TUO's information system;
- It was agreed that, in case of VSB-TUO's interest, I shall enter into a license agreement with VSB-TUO, granting the authorization to utilize the work in the scope of Section 12(4) of the Copyright Act;
- It was agreed that I may utilize my work, the diploma (bachelor) thesis, or provide a license to utilize it only with the consent of VSB-TUO, which is entitled, in such a case, to claim an adequate contribution from me to cover the cost expended by VSB-TUO for producing the work (up to its real amount).

Ostrava dated 1. 5. 2014

Danyang Pan 潘丹阳

Student´s name and surname

List of Annexes

Annex 1: Complete balance sheet of Parkson group.(1000RMB)

	2008	2009	2010	2011	2012
NON-CURRENT ASSETS					
Property, plant and equipment	1,306,004	2,445,354	2,493,773	2,682,993	2,760,526
Investment properties	216,840	168,564	51,357	50,149	23,767
Lease prepayments	409,390	398,310	500,996	487,683	474,373
Intangible assets	2,101,998	2,101,506	2,172,242	2,171,670	2,174,497
Investment in an associate	2,500	2,232	2,110	2,204	2,042
Prepayment for purchase of land and building				422,760	620,048
Other assets	106,137	58,516	39,685	25,254	52,845
Held-to-maturity investments	1,366,920	1,365,640			
Derivative financial instruments designated			8,819	2,855	
Available-for-sale investments				24,685	32,098
Deferred tax assets	41,902	41,586	53,591	72,173	139,457
Total long-term assets	5,551,691	6,581,708	5,322,573	5,942,426	6,279,653
CURRENT ASSETS					
Inventories	187,890	179,911	233,814	278,346	311,469
Trade receivables	20,959	28,655	19,986	13,548	17,270
Prepayments, deposits and other receivables	424,562	427,727	452,270	725,081	1,025,692
Held-to-maturity investments			1,324,540		
Investment in principal guaranteed deposits	617,540	809,170	2,810,238	2,710,857	3,392,033
Cash and Time deposits	3,031,474	3,046,929	2,427,888	2,392,420	1,674,420
Total current assets	4,282,425	4,492,392	7,268,736	6,120,252	6,420,884
CURRENT LIABILITIES					
Interest-bearing bank loans			1,302,000		
Trade payables	1,325,758	1,526,436	1,721,277	1,982,069	1,936,935

Customers' deposits, other payables and accruals	991,452	1,466,555	1,513,363	1,763,349	1,960,907
Tax payable	91,183	80,439	106,246	136,584	98,787
Senior guaranteed notes due November 2011			1,318,381		
Senior guaranteed notes due May 2012		845,089			
Term loan facilities					2,491,161
Derivative financial instruments designated as hedging		93,011	25,902		69,498
Total current liabilities	2,408,393	4,011,530	5,987,169	3,882,002	6,557,288
Net current assets	1,874,032	480,862	1,281,567	2,238,250	136,404
NON-CURRENT LIABILITIES					
Interest-bearing bank loans	1,333,000	1,303,000			
Long term payables	97,236	105,891	117,492	133,750	238,487
Deferred tax liabilities	246,186	249,192	238,730	230,204	243,402
Senior guaranteed notes due November 2011	1,348,302	1,353,033			
Senior guaranteed notes due May 2012	842,605				
Term loan facilities			1,615,130	2,467,446	
Derivative financial instruments designated as hedging	31,089	59,309	43,637	8,683	
Total long-term liabilities	3,898,418	3,070,425	2,014,989	2,840,083	481,889
Total liabilities	6,306,811	7,081,955	8,002,158	6,722,085	7,039,177
NET ASSETS	3,527,305	3,992,145	4,589,151	5,340,593	5,661,360
Issued capital	58,133	58,297	58,352	58,354	58,354
Reserves	3,150,707	3,581,059	4,172,850	4,900,631	5,328,927
Proposed final dividends	237,822	280,722	281,038	309,100	196,750
Minority interests	80,643	72,067	76,911	72,508	77,329
Total equity	3,527,305	3,992,145	4,589,151	5,340,593	5,661,360

Annex 2: Complete income statement of Parkson group.(1000RMB)

	2008	2009	2010	2011	2012
Revenues	3,137,412	3,461,266	3,819,375	4,364,291	4,547,138
Sale of goods – direct sales	1,190,126	1,253,143	1,328,177	1,501,766	1,567,708
Commissions from concessionaire sales	1,781,551	2,022,056	2,302,680	2,636,719	2,714,668
SALES	2,971,677	3,275,199	3,630,857	4,138,485	4,282,376
Consultancy and management service fees	29,873	27,245	19,967	18,511	18,657
Gross rental income	135,862	158,822	168,551	207,295	246,105
Other operating revenues	399,520	447,368	580,703	574,018	593,222
Promotion income	80,994	66,362	74,815	88,115	102,441
Credit card handling fees	133,450	167,942	189,613	217,895	221,640
leasing income	28,569	32,869	37,072	44,489	47,206
Administration fees	52,584	41,259	48,663	55,223	60,671
Service fees	23,473	27,527	30,000	32,295	32,568
Government grants	9,413	12,638	16,872	13,535	6,687
Compensation income		8,900	3,620	3,472	
Gain on disposal of a jointly-controlled entity			44,529		
Other income	71,037	89,871	135,519	118,994	122,009
Total operating revenues	3,536,932	3,908,634	4,400,078	4,938,309	5,140,360
purchases of goods and changes in inventories	-982,042	-1,041,852	-1,098,954	-1,239,707	-1,316,463
Staff costs	-264,632	-275,960	-359,483	-380,344	-488,472
Depreciation and amortisation	-152,513	-166,223	-179,962	-236,164	-294,844
Rental expenses	-378,540	-500,354	-575,687	-671,855	-905,864
Other operating expenses	-548,040	-594,052	-718,065	-901,310	-1,012,671
Total operating expenses	-2,325,767	-2,578,441	-2,932,151	-3,429,380	-4,018,314
Profit from operations	1,211,165	1,330,193	1,467,927	1,508,929	1,122,046
Finance income	245,747	210,976	213,930	287,068	190,985
Finance costs	-331,757	-317,980	-354,260	-277,770	-108,294

interest on bank loan and overdrafts	-153,310	-140,276	-138,006	-115,394	
Share of profit of an associate	975	577	311	346	144
EBIT	1,279,440	1,364,042	1,465,914	1,633,967	1,204,881
Profit from operations before income tax	1,126,130	1,223,766	1,327,908	1,518,573	1,204,881
Income tax	-247,758	-286,412	-304,251	-365,819	-325,177
Profit for the year	878,372	937,354	1,023,657	1,152,754	879,704
Profit attributable to: Equity holders of the parent	841,142	910,846	991,808	1,122,929	850,774
Profit attributable to: Minority interests	37,230	26,508	31,849	29,825	28,930
Effective portion of changes in fair value of hedging instruments on cash flow hedges arising during the year	123,850	-120,430	-16,006	137,278	-59,820
Available-for-sale investments: Changes in fair value				-4,998	7,413
Exchange differences on translation of foreign operations	-16,117	1,453	4,562	-22,738	4,263
Other comprehensive (loss)/income for the year, net of tax	107,733	-118,977	-11,444	109,542	-48,144
Total comprehensive income for the year	986,105	818,377	1,012,213	1,262,296	831,560
Total comprehensive income attributable to: Owners of the parent	948,875	791,869	980,364	1,232,471	802,630
Total comprehensive income attributable to: Minority interests	37,230	26,508	31,849	29,825	28,930